

Corporate Governance Statement

The board's statement on the company's corporate governance performance is based on the Combined Code on Corporate Governance published in July 2003 ("the Combined Code").

The Combined Code requires companies to disclose how they apply the code's principles and to confirm that they comply with the code's provisions or, where they do not comply, to provide an explanation.

a) Application of Combined Code principles

The board comprises the non-executive chairman (Alf Duch-Pedersen), a non-executive deputy chairman (Lord Condon), five other non-executive directors, the chief executive (Nick Buckles), the chief financial officer (Trevor Dighton) and the chief operating officer (Grahame Gibson). The board considers all the non-executive directors to be independent. The senior independent director is Malcolm Williamson.

All continuing directors are subject to election by shareholders at the next Annual General Meeting following their appointment and will submit themselves for re-election at least every three years.

Membership of the three board committees is as follows:

Audit Committee

Thorleif Krarup (chairman)
Bo Lerenius (joined March 2006)
Mark Seligman
Malcolm Williamson

Remuneration Committee

Lord Condon (chairman)
Mark Elliott (joined March 2007)
Bo Lerenius
Mark Seligman (joined March 2006)

Nomination Committee

Alf Duch-Pedersen (chairman)
Lord Condon
Malcolm Williamson (joined June 2006)

Lord Condon became chairman of the Remuneration Committee on 1 July 2006 when Mr Duch-Pedersen left the committee upon becoming chairman of the board. Waldemar Schmidt left the Remuneration Committee on his retirement from the board on 30 June 2006. Mr Duch-Pedersen became chairman of the Nomination Committee following the retirement of Jørgen Philip-Sørensen, also on 30 June 2006. Mr Seligman is the member of the Audit Committee with recent and relevant financial experience.

The terms of reference of each of the above committees are available on the company's website.

It is intended that the chairmen of the three committees will be available to answer questions at the Annual General Meeting.

The directors met on ten occasions during the year ended 31 December 2006. There were ten board meetings, one of which was an extended, two-day, board and strategy session, at which presentations on some of the group's key businesses were made to the board by senior executives and at which the group's business plan, legal, financial and HR strategies were discussed. Waldemar Schmidt, Malcolm Williamson, Mark Elliott and Bo Lerenius were each absent for one board meeting. At each meeting, the board receives reports from the chief executive, the chief financial officer and the company secretary, an HR report and an investor relations report which include summaries of developments on HR matters and comments received from major shareholders since the previous board meeting. In addition, the board receives monthly management accounts.

There are ten board meetings scheduled for the current year, together with a two-day strategy session.

There is a detailed schedule of matters reserved to the board which are set out under five separate categories: (1) Board and management; (2) Operations; (3) Finance; (4) Business control; and (5) Secretarial. By way of example, board approval is required for (a) acquisitions, disposals, investments and capital projects exceeding £4m; (b) any changes to the group's business strategy; and (c) the annual trading, capital expenditure and cash flow budgets.

Corporate Governance Statement (continued)

a) Application of Combined Code principles (continued)

In the year under review, the Audit Committee met four times, the Remuneration Committee six times and the Nomination Committee twice. All members attended each of the meetings except for Malcolm Williamson who was absent from two meetings of the Audit Committee, Waldemar Schmidt and Bo Lerenius who were each absent from one meeting of the Remuneration Committee (and Alf Duch-Pedersen did not attend the meeting of the Remuneration Committee at which his fees as future chairman of the board were discussed) and Jørgen Philip-Sørensen was absent from one meeting of the Nomination Committee.

The performance of the board and its committees has been evaluated in a number of ways. Having conducted a questionnaire-based self-assessment of the performance of the board as a whole in the previous year, the findings have been considered during the year under review and, based on this feedback, steps have been taken during the year to increase the interaction between non-executive directors and the senior executives of the group's businesses. In addition, the chairman has conducted individual evaluations of the performance of each of the directors and his findings have been discussed by the board.

Both the Audit and Remuneration Committees have evaluated their performance by questionnaire-based self-assessment, completed, in the case of the Audit Committee, by both the committee's members and by the other regular attendees of its meetings. The results of the assessments were reviewed by the committees concerned and some areas for improvement were identified. As a result, additional meetings have been scheduled to give the committees more time to both carry out their duties and address some of their development and assessment needs.

The chief executive and the chief financial officer hold regular meetings with individual institutional shareholders to discuss the group's strategy and financial performance, although price sensitive information is never divulged at these meetings. It is intended that all the directors will attend the Annual General Meeting and will be available to answer questions from shareholders (other than Mr Seligman, whose unavailability at this time was made known at the time of his appointment).

The Nomination Committee is responsible for making recommendations on board appointments and on maintaining a balance of skills and experience on the board. Alf Duch-Pedersen succeeded Jørgen Philip-Sørensen as chairman of the board when the latter retired in June 2006. The Nomination Committee had considered a number of possible candidates but concluded that Mr Duch-Pedersen's knowledge of the security industry and his retirement from executive duties with Danisco made him an ideal candidate. The committee did not therefore believe that external advertising or the use of an external search consultancy would be beneficial. The intended succession of Mr Duch-Pedersen was reported in the company's annual report for 2005. Mark Elliott was appointed as a non-executive director with effect from 1 September 2006 on the advice of the Nomination Committee which had received recommendations on a number of potential candidates from an external search consultancy.

Audit Committee meetings are also attended by representatives of the group auditor, the chief financial officer, the head of internal audit and the company secretary. The committee considers the group's annual and interim financial statements and any questions raised by the auditor on the financial statements and financial systems. It also reviews, amongst other matters, whistle blowing arrangements, risk management procedures and internal controls.

The Audit Committee has established a policy on the provision by the external auditor of non-audit services, so as to ensure that the independence of the audit is not compromised. Besides the formal audit function, the auditor is permitted to provide consultation and due diligence services related to mergers and acquisitions, audits of employee benefit plans, reviews of internal accounting and control policies, general advice on financial reporting standards and corporate tax services. The auditor is prohibited from providing other services without specific permission from the Audit Committee. The value of non-audit services provided by the auditor must not exceed the fees charged for the statutory audit, save in the event of a major transformation deal. The auditor has written to the Audit Committee confirming that, in its opinion, it is independent.

b) Compliance with provisions of Combined Code

Save as set out below, the company complied throughout the year under review with the provisions set out in section 1 of the Combined Code.

Non-compliance with Combined Code

Provisions A.1.3 and A.6.1 of the Combined Code provide that the non-executive directors, led by the senior independent director, should meet without the chairman present at least annually to appraise the chairman's performance. In view of the retirement of Jørgen Philip-Sørensen at the end of June 2006, it was thought to be unnecessary to review the out-going chairman's performance and too soon to conduct a meaningful review of the performance of his successor, Alf Duch-Pedersen, before the year-end. Such an appraisal will be carried out during the current year.

Corporate Governance Statement (continued)

c) Risk management and internal control

The directors acknowledge their responsibility for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risks associated with the group's activities are reviewed regularly by the board, which considers major risks and evaluates their impact on the group. Policies and procedures, which are reviewed and monitored by the head of internal audit, are in place to deal with any matters which may be considered by the board to present significant exposure.

The key features of the group's risk management process are:

- > A common risk management framework is used to provide a profile of those risks which may have an impact on the achievement of business objectives.
- > Each significant risk is documented, showing an overview of the risk, how the risk is managed, and any improvement actions. The risk profiles ensure that internal audit reviews of the adequacy, application and effectiveness of risk management and internal controls are targeted on the key risks.
- > Risk management committees have been established at regional, divisional and group level. The regional committees meet twice a year and the divisional and group committees meet quarterly. A standard agenda covering risk and control issues is considered at each meeting and risk profiles are reviewed and updated at each meeting.
- > Risk and control self-evaluation exercises are undertaken for each operating company at least twice a year and updated risk profiles are prepared. Similar exercises are undertaken as part of the integration process for all major acquisitions. The results of the company risk evaluations are assessed by the regional and divisional risk management committees.

The process, which is reviewed regularly by the board in accordance with the internal control guidance for directors in the Combined Code, is carried out under the overall supervision of the group risk management committee. This committee, which reports to the Audit Committee, includes both the chief executive and the chief financial officer.

The Audit Committee undertakes a high level review of risk management and internal control. Both the divisional risk management committees and the group risk management committee receive internal audit reports and regular reports on risks. They monitor the actions taken to manage risks.

The internal control system includes clearly defined reporting lines and authorisation procedures, a comprehensive budgeting and monthly reporting system, and written policies and procedures. In addition to a wide range of internal audit reports, senior management also receive assurance from other sources including security inspections, third party reviews, company financial control reviews, external audit reports, summaries of whistle blowing activity, and risk and control self-evaluations.

The board has reviewed the group's risk management and internal control system for the year to 31 December 2006 by considering reports from the Audit Committee and has taken account of events since 31 December 2006.

Peter David
Secretary
30 March 2007